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NOTES AND MEMORANDA.

MUNICIPAL OWNERSHIP OF TELEPHONES IN GREAT BRITAIN.¹

Of the six cities which established municipal telephones under the act of 1899, only two were still operating their systems in June of this year (1907). Tunbridge Wells sold its plant to the National Telephone Company in 1902, at the end of its first year of working. Glasgow and Brighton sold their plants to the British Post-office in the latter half of 1906. Swansea sold its plant to the National Telephone Company in the spring of the current year. Portsmouth and Hull alone remain in the field, and their withdrawal is only a matter of time. This rapid collapse of the municipal undertakings has been thought to be an important piece of evidence against the general policy of municipal ownership. In fact, it throws no light at all on the general question. The abandonment of the policy of municipal ownership of telephones is the result of the peculiar conditions under which telephone operations have been carried on in Great Britain in recent years.

The circumstances under which that policy was adopted must first be taken into consideration. In 1899 the telephone situation in Great Britain had reached a crisis. The service had long been in the hands of a practical monopoly, the National Telephone Company. The state in 1896 had purchased all the trunk lines (*i.e.*, long-distance lines), and thereafter operated them as a part of its telegraph monop-

¹ The leading sources for the recent history of the telephone in Great Britain are: (1) the Reports of the Select Committees of 1898 and 1905, with the Minutes of Evidence, (2) the Reports of the Postmaster-General; (3) the Parliamentary Debates on the Agreements of 1901 and 1905; (4) the (London) *Electrical Review*, the *Electrician*, and the *Economist*

oly. But the company retained the local exchange business. The licenses under which the company operated its local systems would expire in 1911. This would render its plant worthless unless the government chose either to purchase the plant or to extend the licenses for another period of years. The latter alternative was out of the question. Some form of public ownership of the telephone was demanded by public opinion as the ultimate solution. On the other hand, unless some action were taken in advance, the government, in order to prevent an interruption of the service, would find itself compelled in 1911 to buy out the telephone company, probably at an inflated price. This would be but a repetition of the bad bargain of 1870, when the telegraphs were purchased. Immediate action was necessary in order to force the monopoly to come to reasonable terms in 1911.

Competition was generally recognized as the most promising mode of compelling the company to come to terms. Unless the government demonstrated its ability to get along in 1911 without the plant of the company, it would find itself wholly in the latter's power. Competition was not suggested as a permanent regulator of the industry. For the ultimate solution of the problem the only question in doubt was whether the local exchange business should be national or municipal. What sort of temporary competition should be resorted to ought to have been decided with a view to the ultimate solution. But the government of the day could not settle that question in advance. Accordingly, it determined tentatively to authorize municipal competition. A number of municipalities had long been dissatisfied with the service of the monopoly. Altho others had made agreements with the company whereby it was able to improve its service, it was believed that the policy of municipal competition would meet with a ready response. Indeed, the leading advocate of the policy, Glasgow, was eager to be given the opportunity. At the same time the government decided that the postal authorities should join in the attack on the monopoly.

The decision was embodied in the act of 1899. Competition between the company and the municipalities was intended to be started on a fair basis. The latter were authorized to take out licenses for not more than twenty-five years; but, if the term extended beyond 1911, the company might secure a corresponding extension in the same area. At the expiration of the licenses such portions of the plants of both the municipalities and the company as should conform to the standard of efficiency to be prescribed by the Postmaster-General would be purchased by him at their fair market value without payment for good will.

Under this act only six out of a possible 1,334 municipalities established competing exchanges. In one of these, Tunbridge Wells, the municipal undertaking was made an issue in local politics, and was disposed of at the end of a year. In the others vigorous competition was inaugurated. The company responded with equal vigor, and for a while a doubtful contest was waged. Rates were greatly reduced and an unprecedented expansion of telephone facilities in the competitive areas followed. Short-lived tho they were, the municipal systems did some excellent service. They drew attention to the high rates previously charged by the monopoly and they greatly aided in popularizing the telephone. Without the episode of municipal competition the British public would not so soon have realized the extent to which the telephone may become a necessity, not only of business life, but of the social life of the people. In Glasgow experiments were made with the equipment of the system which turned out unfortunately, so that at the time of the sale its finances were in an unsatisfactory condition. The other municipal systems, however, were technically sound.

The general abandonment of the municipal telephone undertakings thus cannot be adequately explained by any technical or financial weaknesses for which their managers were responsible. The explanation must be sought elsewhere. In the first place, the regulations governing competition which were laid down by the act of 1899 gave the

National Telephone Company a great advantage. It had been anticipated that the power of the company to make local discriminations in rates would be offset by the power of the municipalities to aid their undertakings by taxation. Thus each party would be equally prepared to maintain unprofitable competition. It did not work out in that way. Municipal undertakings could not seek relief from taxation without inviting charges of financial failure. This they were reluctant to do. The company was easily able so to cover up the accounts of its business in competitive areas that its profits or losses were unknown. Thus, without publicity, it might defray the cost of cut-throat competition from its surplus gains in the non-competitive areas. It undoubtedly did this, to the great damage of the municipal undertakings.

If a greater number of municipalities had established competing systems, the company's advantage from local rate discriminations would have been less overwhelming. But several factors combined to discourage municipalities from applying for licenses. The arrangement of the local telephone areas in accordance with the terms of the company's license greatly hampered municipalities planning to compete. An area often included several separate municipalities. This made it difficult for the local authorities to organize a well-knit system. Moreover, they were reluctant to grant the company statutory rights in their streets, as they must do in order to secure for themselves a license over an extended period. If, on the other hand, they took out a license running only until 1911, they must entirely recoup their capital during the interval. This would make successful competition difficult. The company was assured of protection from total loss, if it were defeated by a municipal competitor before 1911, and yet the municipalities had no certainty of a day when they could operate their exchanges undisturbed by the presence of a rival. Municipal competition was not attractive to ambitious municipal traders in search of new fields to conquer. Those municipalities which had made working agreements with

the monopoly were especially reluctant to try the new policy of competition before they had an opportunity to watch the success of the Glasgow undertaking.

The most important factor in discouraging municipalities from applying for licenses was the action of the government itself. It will be recalled that part of the plan of 1899 was the co-operation of the postal authorities with the municipalities in the attack on the monopoly. The Postmaster-General promptly began to plan a postal telephone exchange system for London. The central exchange of the Post-office was opened early in 1902. But there was no competition with the company. The Postmaster-General had already decided not to compete, but to co-operate. An agreement had been concluded November 18, 1901, providing for identical rates on both systems, intercommunication between them, and, most important of all, purchase of the company's plant in 1911. This agreement spared the public the inconvenience of competition, and accomplished for the London area all the object, for which the policy of competition had been originally devised. It was unexpected, however, by the advocates of real competition. They had no reason to anticipate such a complete reversal of attitude on the part of the government so early in the contest.

These facts readily account for the small number of municipalities which entered the field. The final blow was struck directly by the government. During the years immediately following the completion of the London agreement the Post-office steadily pursued its policy of co-operation with the monopoly. In 1904 further action had become necessary in order to induce the company to provide for extensions until 1911, as well as to secure equitable terms of purchase at that date. The government was convinced that reliance could not be placed in municipal competition alone to secure these objects. It was being conducted on too small a scale. Accordingly, the Postmaster-General determined to extend the terms of the London agreement of 1901 to the company's telephone systems

thruout the kingdom. To secure the assent of the company, he announced that he should grant no more licenses to municipalities to establish telephone systems. This announcement terminated, so far as the government was concerned, the policy of municipal competition. It showed that the ultimate solution of the telephone problem was to be national monopoly of the local exchange business. The agreement with the company, which was concluded in 1905, was the consummation of the purpose of the act of 1899. But it effectually killed the prospects of the then existing municipal undertakings. Their sale became only a question of time.

The apparent failure of municipal ownership of telephones is thus in reality the result of the abandonment of the policy of telephone competition. That policy was abandoned because its objects were accomplished. It is impossible to say what the result of municipal ownership of telephones would have been, had it been possible to have given that a real trial. As things stood in Great Britain, competition was intended only as a temporary makeshift. In 1899 the ultimate solution of the telephone problem had been postponed until experience should have shown the relative advantages of state and municipal ownership. Before a thorough test could be made, the government seized a favorable opportunity for driving an advantageous bargain with the monopoly. In so doing, it sacrificed the prospects of municipal telephones. Yet to the municipalities is due a share of the credit for creating that opportunity. They aided the Postmaster-General in convincing the officers of the National Telephone Company that it was possible for him to get along in 1911 without their telephone systems. From this point of view municipal ownership of telephones was not a failure. The benefits of the policy on the whole have probably been worth their cost.

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